

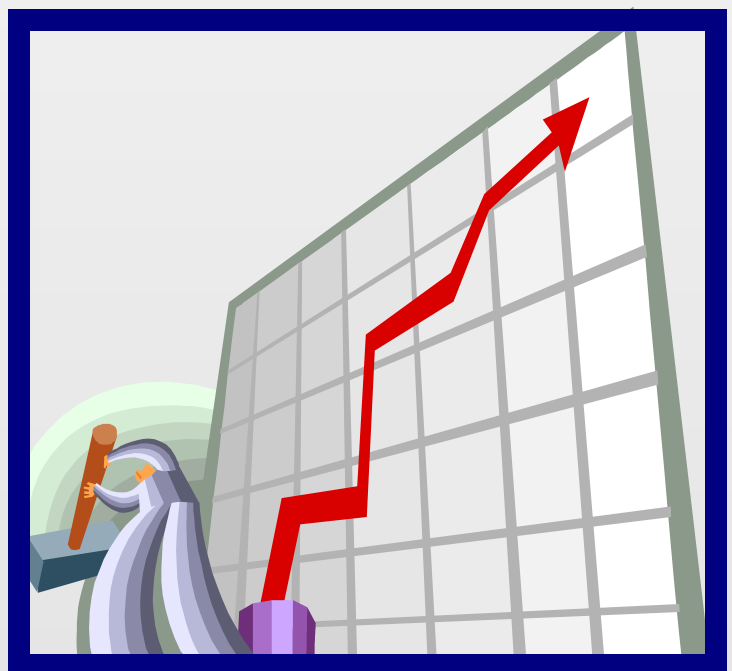


Internal Audit Department

Financial Condition Report

Fiscal Year 2001, Benchmark Edition

May 2002



County Auditor

Ross L. Tate, CMA, CIA, CGFM



Project Team

D. Eve Murillo, CPA, MBA, CFE

Audit Manager

Richard L. Chard, CPA

Senior Auditor

John Schulz, MPA

Senior Auditor

Kimmie Wong

Associate Auditor

Internal Audit Department

301 W Jefferson 10th Floor Phx AZ 85003 (602) 506-1585 Fax (602) 506-8957



May 22, 2002

Don Stapley, Chairman, District II
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Janice K. Brewer, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

Internal Audit has completed this Benchmark Edition of the FY 2001 Financial Condition Report as a part of our Board approved audit plan.

An abbreviated Special Executive Edition featuring only Maricopa County trends was issued in February 2002. The Benchmark Edition needed a later release date because benchmark county financial year-end data was not available in February. A comparison to benchmarks broadens our perspective. Overall, we found that our fiscal health compares favorably to the benchmark counties.

A special section of this report analyzes the important issue of health system net income and liquidity as portrayed in County financial statements.

We are pleased to note that Internal Audit's annual Financial Condition Report is now the recipient of two national awards (NACO and an audit association award.)

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Financial Condition Report Awards Page



**National Association of Local
Government Auditors
Award Winner 2002**

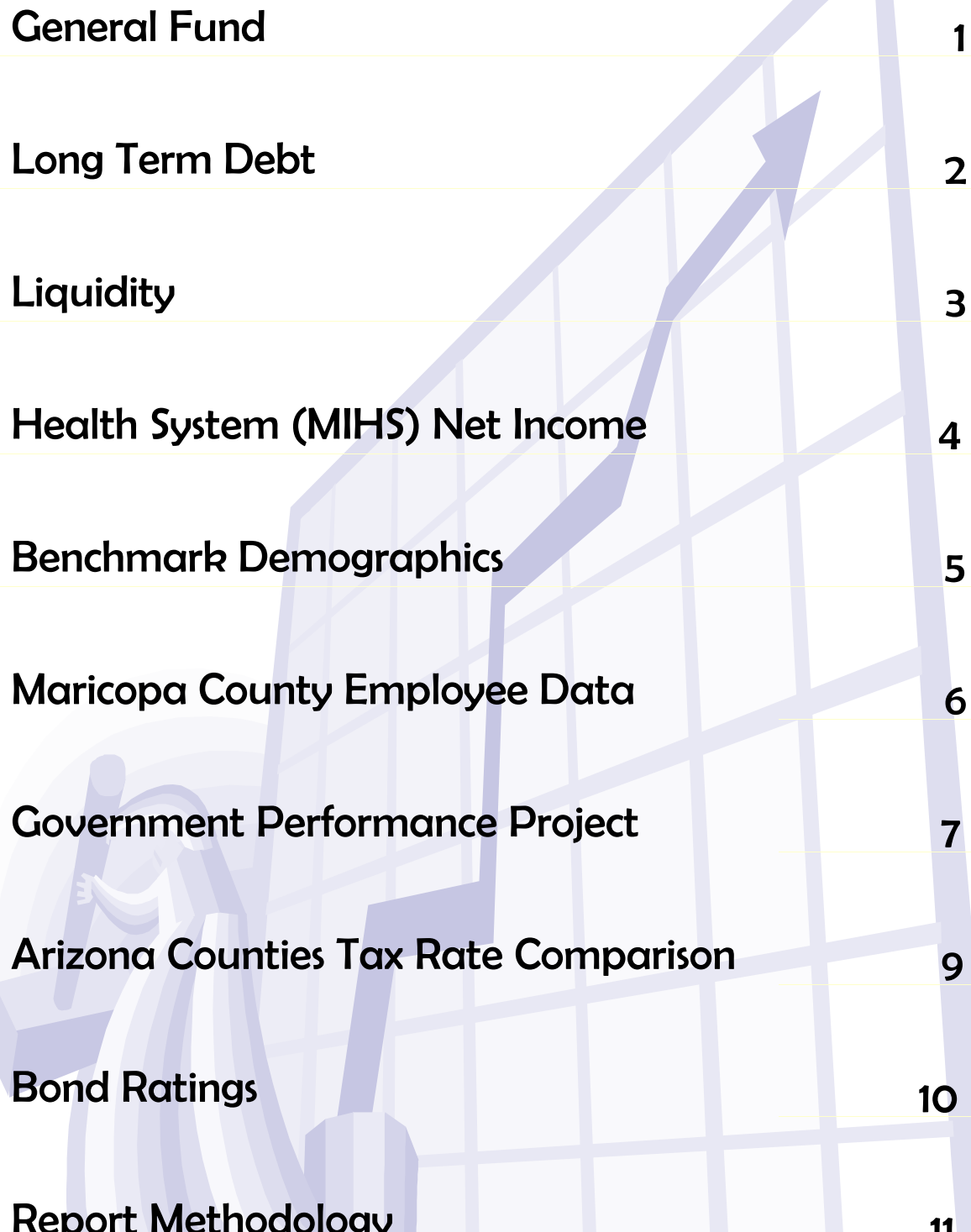


National Association of Counties
Counties Care for America

**National Association of Counties
Achievement Award Winner 2001**



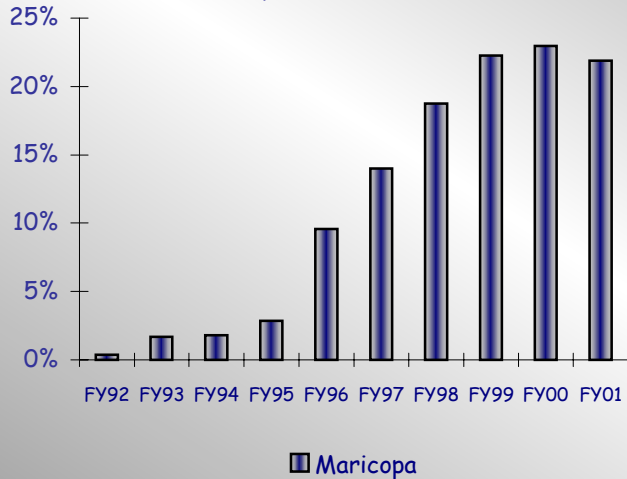
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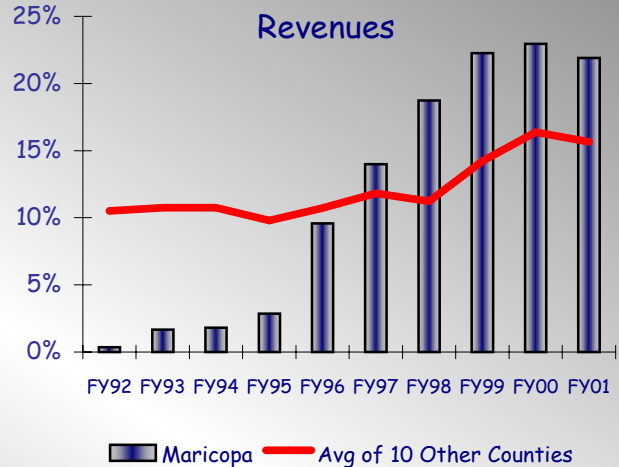
General Fund

General Fund Balance as a Percent of Revenues



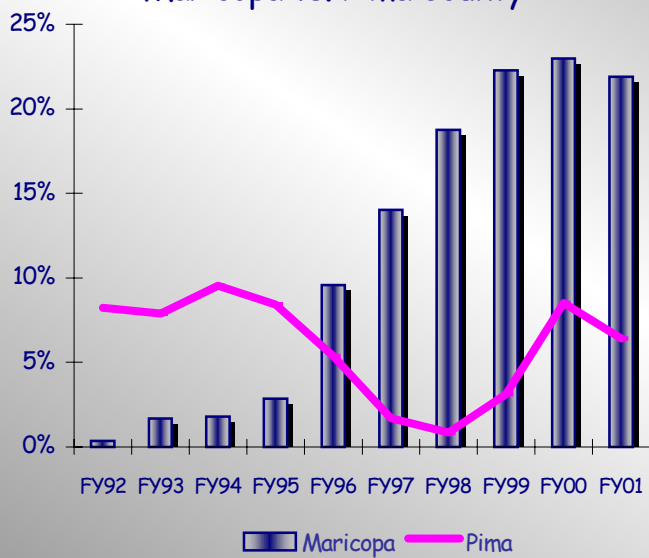
Maricopa's unreserved General Fund balance has grown because financing sources exceeded financing uses and County leaders budgeted reserves for future capital outlay.

Benchmark Counties: General Fund Balance as a Percent of Revenues



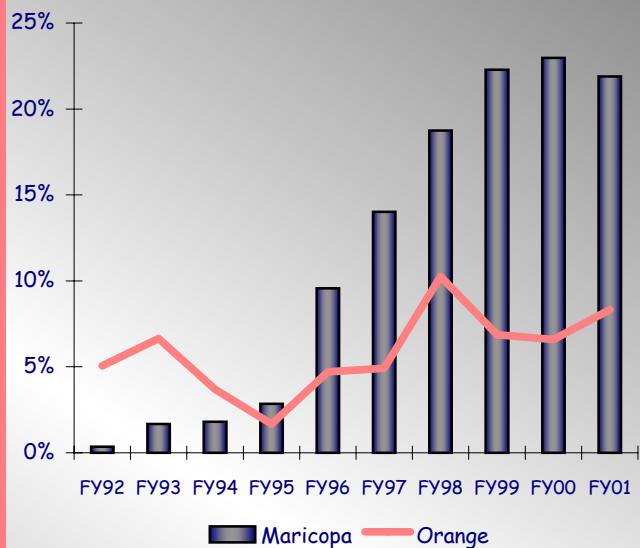
Maricopa's unreserved General Fund balance performance continues to surpass the benchmarks' performance.

Maricopa vs. Pima County



Pima County's (AZ) ratio of fund balance to revenues has lagged behind Maricopa's for the last six years.

Maricopa vs. Orange County

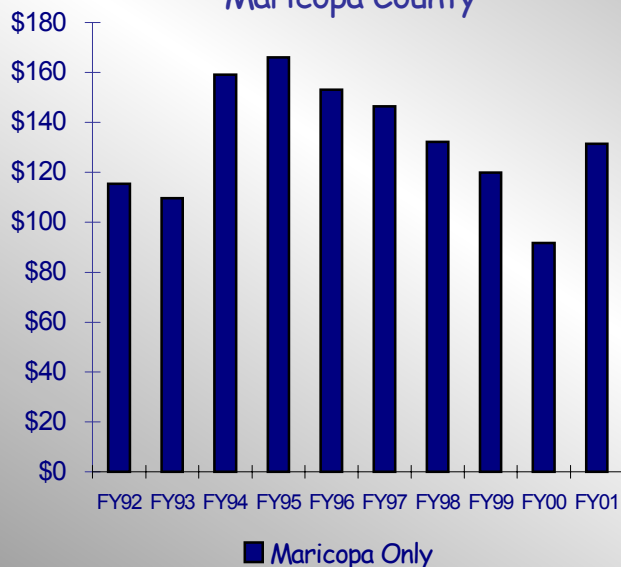


Orange County's (CA) ratio of fund balance to revenues has been weaker than Maricopa's strong ratio for the last seven years.



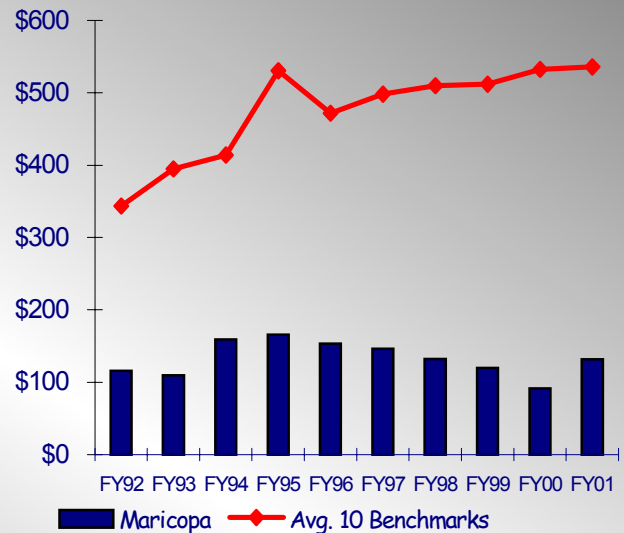
Long Term Debt Per Person

Maricopa County



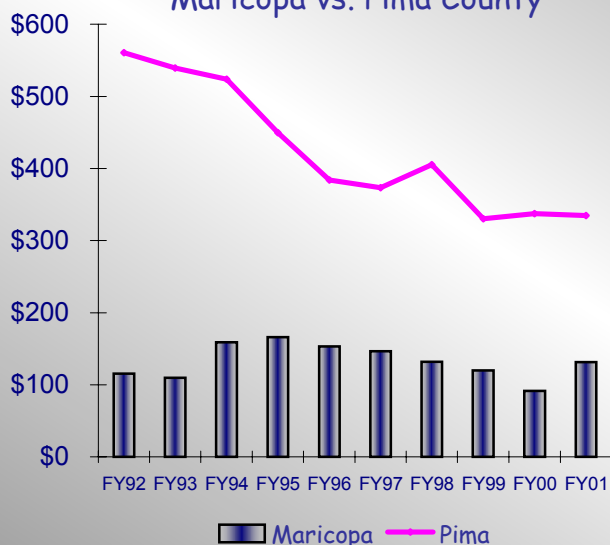
In FY01, new bonds were issued for building construction and estimated claims/judgments increased. The increase for construction was offset by a hard cash reserve.

Maricopa County vs. Benchmarks



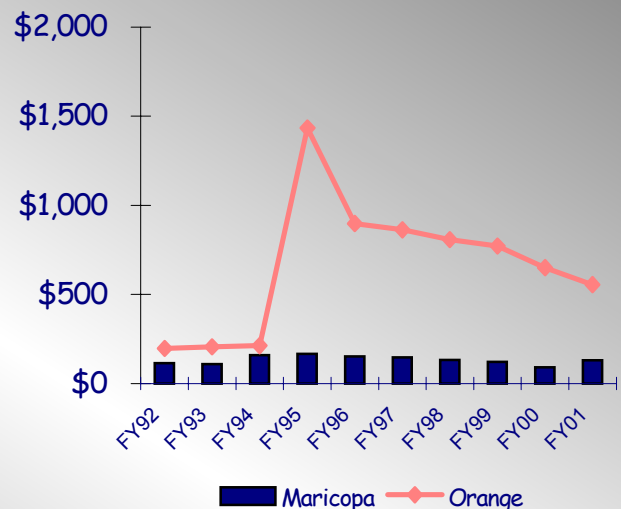
Benchmark counties on average show significantly higher and growing levels of per person debt. Maricopa's low long term debt levels are a financial strength.

Maricopa vs. Pima County



Although Pima County's per person debt is lower than the benchmark average, it does not reach Maricopa's favorable low level.

Maricopa vs. Orange County

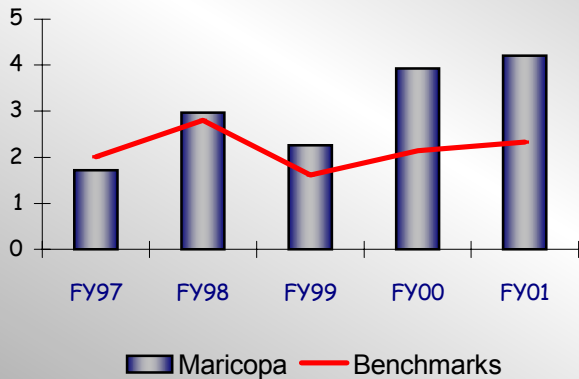


Orange County maintained low long term debt like Maricopa until FY95 when large investment losses forced Orange to issue debt.

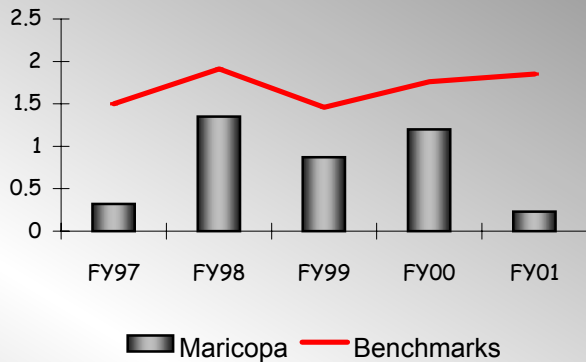


Liquidity

General Fund Liquidity Ratio
(Including Due From/To Other Funds)



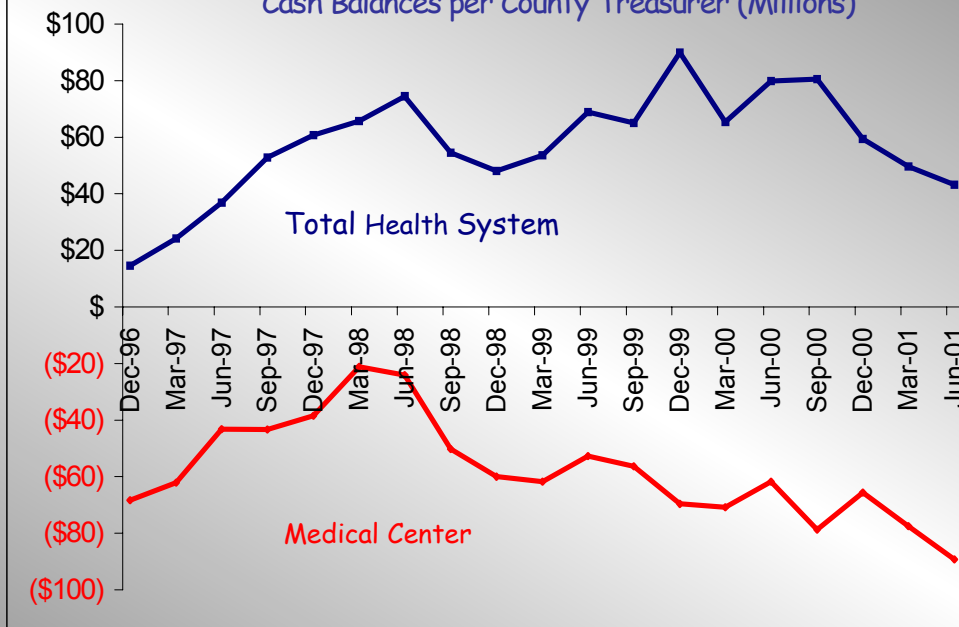
General Fund Liquidity Ratio
(Excluding Due From/To Other Funds)



LIQUIDITY = MONEY ON HAND TO PAY BILLS (The ratio of dollars available compared to bills due.)

Maricopa General Fund liquidity over the last 5 years (graph on left) has contained large Medical Center IOU's. The graph on the right shows how Maricopa liquidity would look without IOUs. Medical Center IOU's grow larger as cash balances decline (graph below). Per the AZ Auditor General: "... County's General Fund Cash has been used on an ongoing basis to cover the Medical Center's cash deficits." The Medical Center's inability to pay these IOU's may adversely affect General Fund liquidity. Not shown in Maricopa's FY01 ratio is \$80 million in a Capital Improvement Fund available to the Maricopa General Fund.

Cash Balances per County Treasurer (Millions)

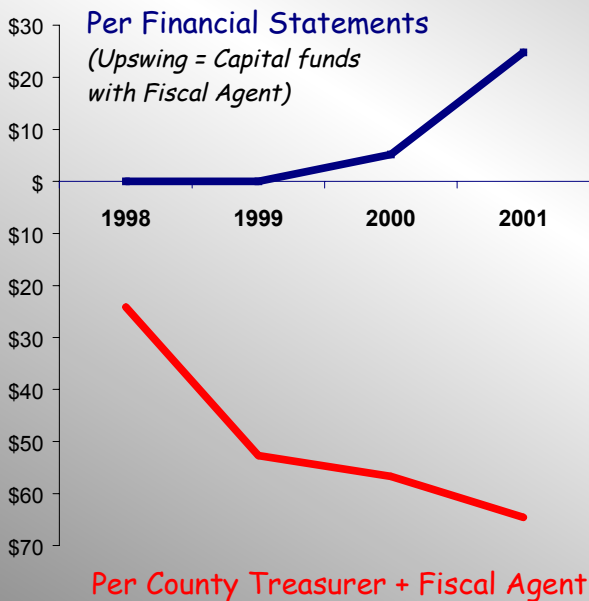


Health System cash balances peaked in mid FY00 and declined sharply in FY01. Health System management states that overall system cash was able to offset Medical Center deficits without General Fund help.



Liquidity / Health System Net Income

Medical Center Cash (Millions)
Treasurer v. Financial Statement



Comprehensive Annual Financial Reports show entity-wide, inter-fund relationships. As a result, isolated sections may not convey economic substance well.

Maricopa's FY01 financial report cash flow statements show a positive Health System cash trend. However, Treasurer (bank) statements show Medical Center cash as \$89 million less than the County cash flow statements.

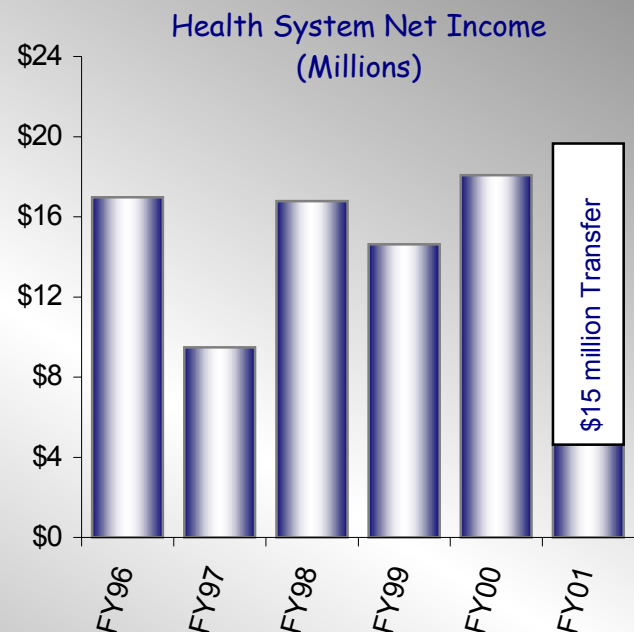
If accounting guidelines had allowed Medical Center cash overdrafts to be shown as "negative cash" (as Treasurer records show), instead of as IOU's to the General Fund, financial reports would have shown a negative Health System cash trend.

Alternatively, cash could have been transferred from the General Fund to the Medical Center to cover the deficits, and the Cash Flow Statements would have matched the Treasurer (bank) statements plus Fiscal Agent statements.

FY01 financial statements show Health System net income as \$15 million more than the amount shown in Health System management reports (light gray bar).

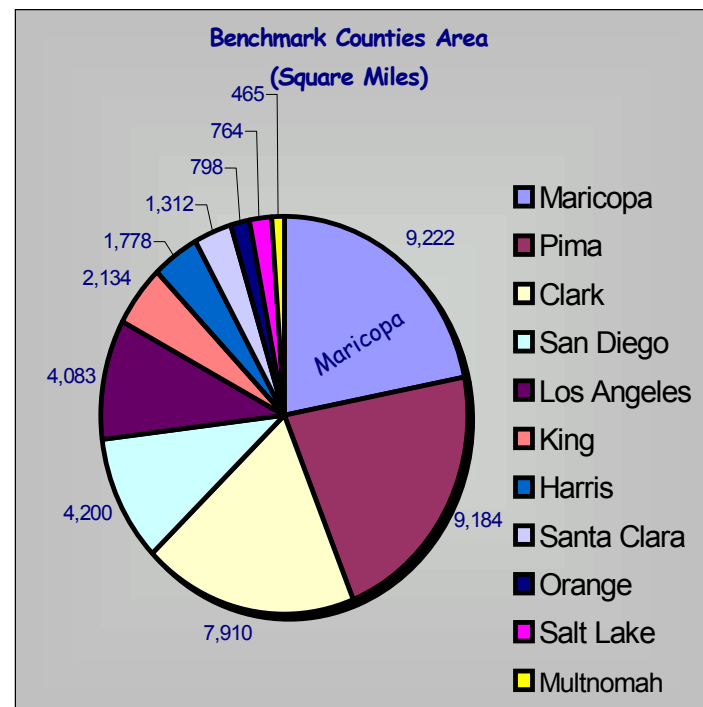
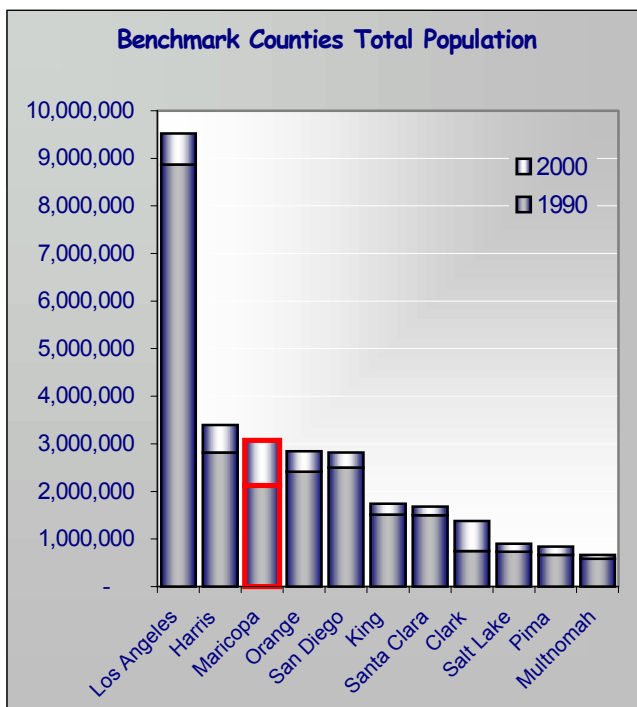
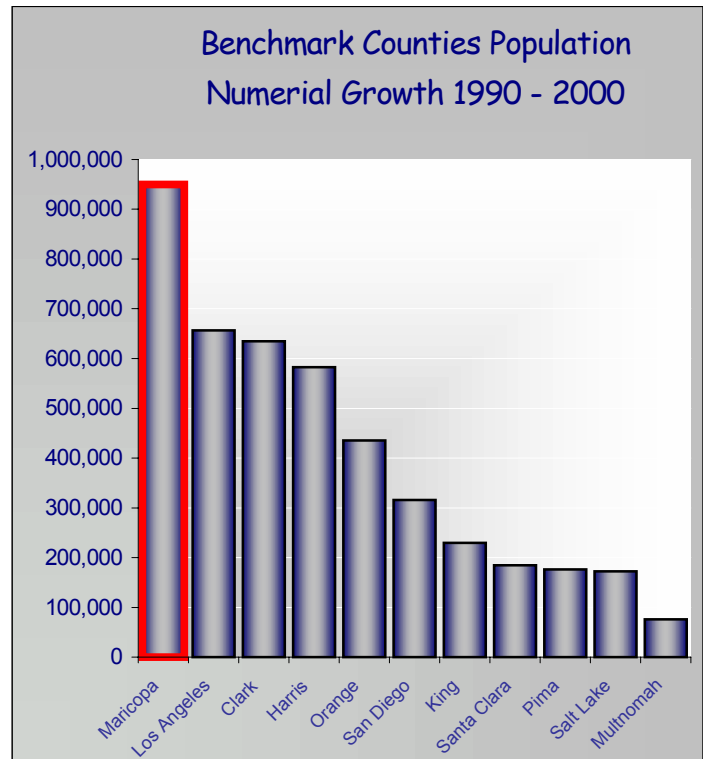
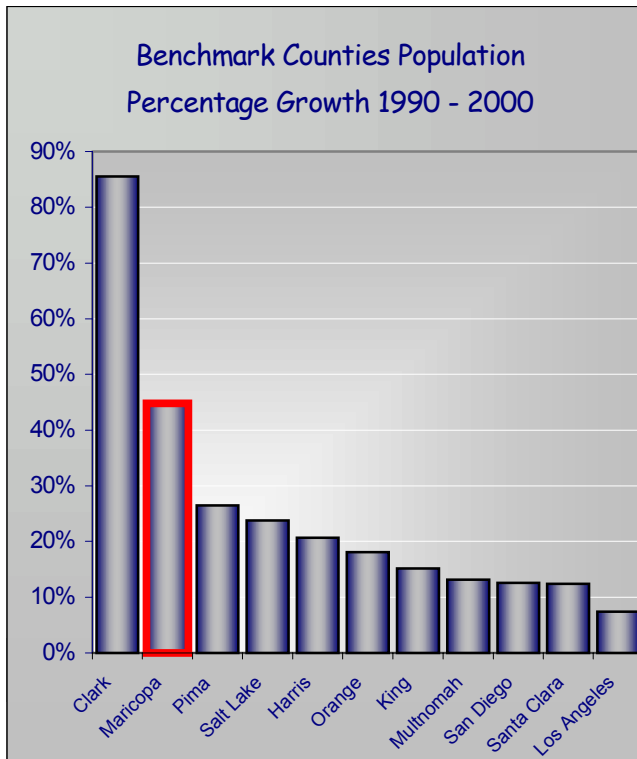
In FY01, Maricopa Long Term Care Program (MLTCP) transferred \$15 million from retained earnings (already reported as MLTCP income) to the Medical Center via the General Fund. Financial statements show the \$15 million operating transfer as an increase to Medical Center net income.

- The transaction created net income in one part of the Health System (Medical Center) by transferring retained earnings from another part of the Health System (MLTCP).
- FY01 financial statements show total Health System net income as \$19.5 million, Health System management presentations show \$4.5 million.
- The Health System did not realize actual additional income from this "related party" transfer.

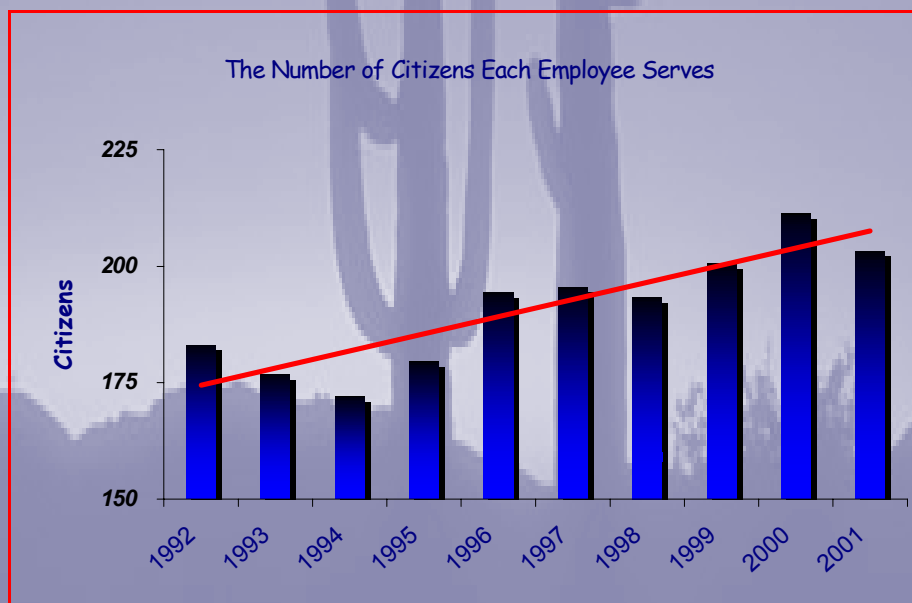
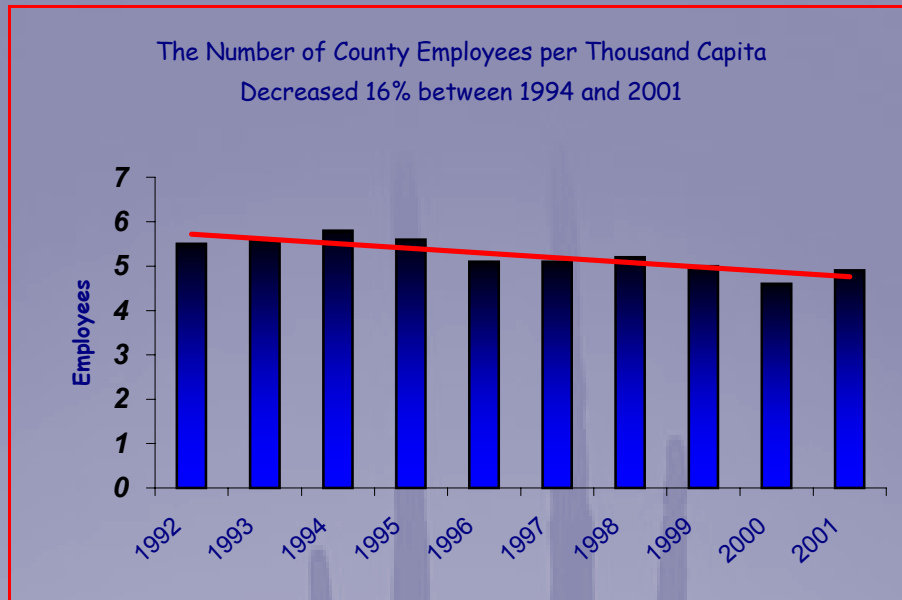


Benchmark Demographics

Maricopa County leads, or is near the top of, population growth when compared to benchmark counties. (Source: 2000 Census Data)



Maricopa County Employee Data



Source: 2000 Census Data



Government Performance Project

Syracuse University Maxwell School of Citizenship & Public Affairs



The Government Performance Project (GPP) is a comprehensive survey of core government management activities' effectiveness.

Maricopa County's Overall Score is **A-**.

The highest score issued in the GPP results was **A-** and only one other county (Fairfax, VA) received that score.

Grade

A

Maricopa County **A-**

Financial Management **A-**

Human Resource Management **B+**

B

Information Technology **A**

Capital Management **B+**

Managing for Results **A-**

C

Fairfax, VA **A-**

Financial Management **A-**

Human Resource Management **A-**

Information Technology **A**

Capital Management **A-**

Managing for Results **A-**

D

Maricopa's Benchmarks Overall Average **C+**

Clark, NV **C+**

Harris, TX **C+**

King, WA **C**

Los Angeles, CA **C**

Orange, CA **B**

San Diego, CA **B+**

Santa Clara, CA **C+**

Multnomah, OR **N/A**

Pima, AZ **N/A**

Salt Lake, UT **N/A**

38 Other GPP Counties Grade range: **D- to B+** Overall Average **C+**

Alameda, Allegheny, Anne Arundel, Baltimore, Broward, Clark, Contra Costa, Cook, Cuyahoga, Dallas, Erie, Franklin, Fulton, Hamilton, Harris, Hennepin, Hillsborough, King, Los Angeles, Mecklenburg, Miami-Dade, Milwaukee, Monroe, Montgomery, Nassau, Oakland, Orange, Palm Beach, Prince George's, Riverside, Sacramento, San Bernardino, San Diego, Santa Clara, Shelby, Suffolk, Wayne, Westchester

N/A: Multnomah, Pima and Salt Lake counties were not graded by GPP

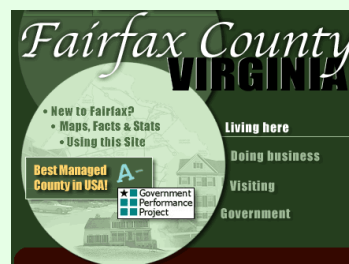


Maricopa Vs. Fairfax

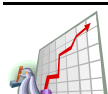
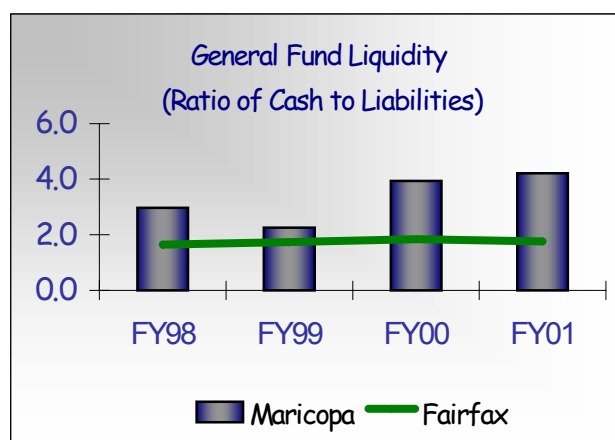
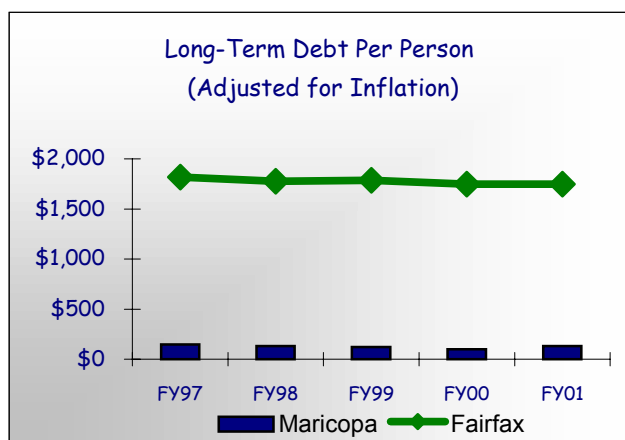
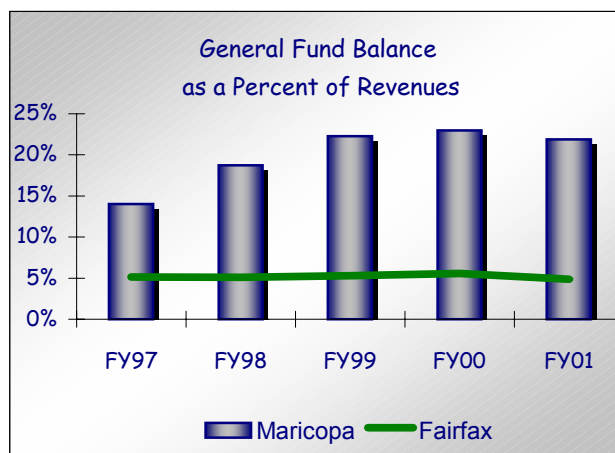
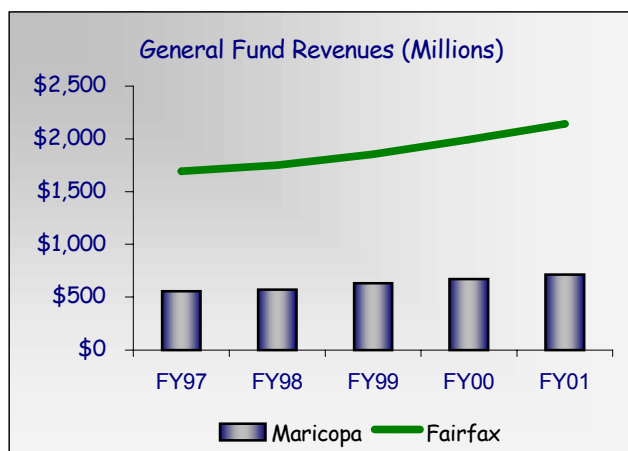
Top-Ranked Performance Counties



	Maricopa	Fairfax
2000 Population	3,072,149	969,749
10 Year Population Increase	44.8%	18.5%
Full-time Equivalent Employees	15,117	31,142
School Funding Responsibilities	NO	Yes

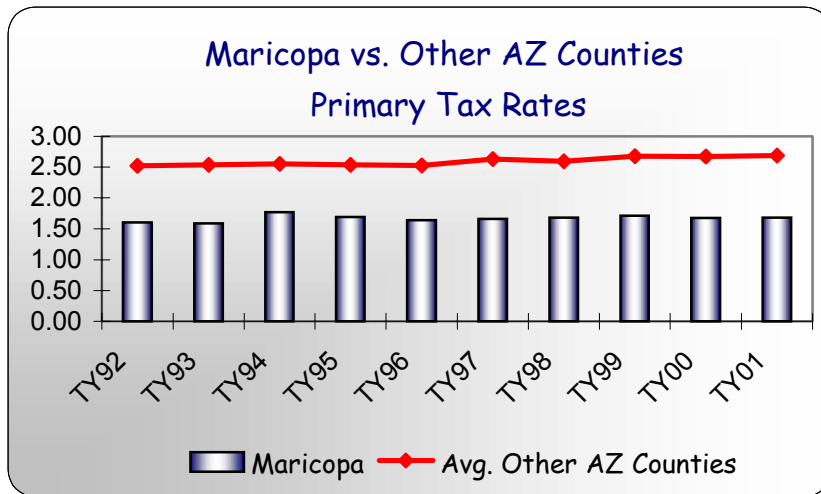


Although Fairfax is smaller in size and population than Maricopa, it has larger revenues and employee numbers due to a broader scope of functions. Fairfax County includes public schools as a component unit, which accounts for its larger per person debt. As the only other county in the Government Performance Project assessment to receive an A-, Fairfax deserves our attention as a model of excellent government performance.



AZ Counties Tax Rate Comparison

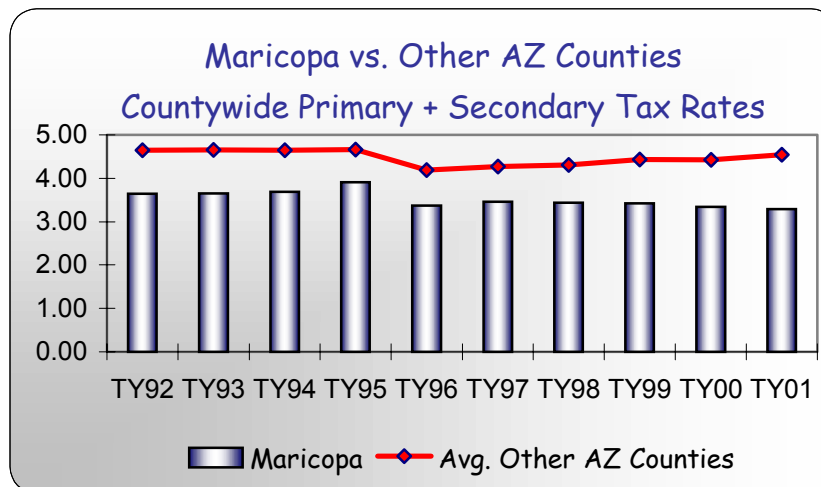
Maricopa County tax rates are consistently lower than the average of all other Arizona counties (average of all other counties excludes Maricopa).



Primary Tax Rate, TY01 (Tax Year)

Maricopa	\$1.68
Benchmark Average	\$2.69

Primary property tax revenues help fund County maintenance and operation budgets.



Countywide Primary & Secondary Tax Rate, TY01

Maricopa	\$3.29
Benchmark Average	\$4.54

Countywide rates include special districts such as Flood Control, Library and Community College districts.

Secondary property tax revenues fund such things as bond issues, budget overrides and special districts.



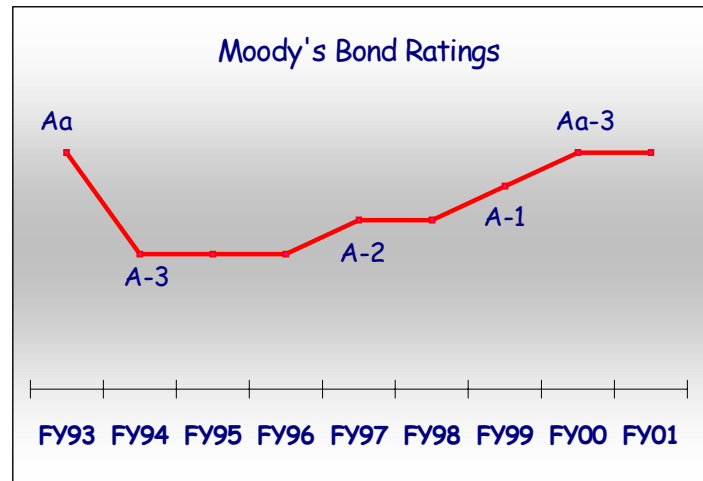
Bond Ratings

Financial Recovery is Reflected in the County's Bond Ratings:

Moody's — Aa-3

Fitch — AA

The County's financial position declined in the early 1990's. The County responded by restructuring its finances. Since June 1994, the Moody's County bond ratings have steadily improved. The following table illustrates the Moody's bond ratings from FY93 through FY01:



What do the Moody's Ratings Mean?

According to Moody's, a rating helps investors determine the relative likelihood that they might lose money on a given fixed-income investment. Obligations that extend longer than one-year are rated **Aaa** through **C**. Moody's **Aaa** represents the highest quality, meaning that the obligation ranks highest in terms of investor safety. A **C** rating is the lowest level of credit quality. Investments rated **Baa** and above are considered "investment grade." Those rated **Ba** and below are considered "speculative grade". The numerical indicators further modify credit risk within each rating. A modifier of **1** indicates that the issue ranks in the higher end of its generic rating, while a modifier of **3** indicates that the issue ranks in the lower end of its generic rating¹.

The table presented above shows that Maricopa County's Long-term bonds, rated **Aa-3** by Moody's, are considered high-grade bonds¹. Maricopa County's trend since June 1994 has been one of improving ratings. In announcing its rating upgrade, Moody's referred to improvement in the county's financial condition, conservative fiscal strategies, elimination of non-service support for the county hospital, and the county's low debt position.¹

What does the Fitch IBCA Rating Mean?

According to Fitch IBCA, credit ratings are an opinion on the ability of an entity to meet its financial commitments. These credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested. "Investment-grade" ratings (international long-term 'AAA' 'BBB' categories) indicate a relatively low probability of default, while those in the "speculative" or "noninvestment grade" categories (international long-term 'BB' 'D') either signal a higher probability of default or that a default has already occurred. Ratings imply no specific prediction of default probability. However, for example, it is relevant to note that over the long term, defaults on 'AAA' rated U. S. corporate bonds have averaged less than 0.10% per annum, while the equivalent rate for 'BBB' rated bonds was 0.35%, and for 'B' rated bonds, 3.0%.²

¹ Moody's Investor Service "Rating Actions, May 27, 2000", "How to Use Ratings" and "Rating Definitions" [Online]. Available: <http://www.Moodys.com.html>.

² Fitch IBCA "Rating Definitions" [Online]. Available: <http://www.Fitchibca.com.html>



Report Methodology

Definition

Financial Condition is defined as a local government's ability to finance services on a continuing basis. A county in good financial condition can sustain existing services to the public, withstand economic slumps, and meet the demands of changing service needs.

Objectives, Scope, and Methodology

The objective of this report is to evaluate the financial condition of Maricopa County using key indicators. Indicators were selected from authoritative sources on evaluating governmental entity financial condition and judged to be the most indicative of a county's overall financial health.

Ten benchmark counties' and Maricopa County's audited financial statements were used as primary sources of data for this report. The benchmark counties are:

➤ Clark	(Las Vegas, NV)
➤ Harris	(Houston, TX)
➤ King	(Seattle, WA)
➤ Los Angeles	(Los Angeles, CA)
➤ Multnomah	(Portland, OR)
➤ Orange	(Santa Ana, CA)
➤ Pima	(Tucson, AZ)
➤ Salt Lake	(Salt Lake City, UT)
➤ San Diego	(San Diego, CA)
➤ Santa Clara	(San Jose, CA)

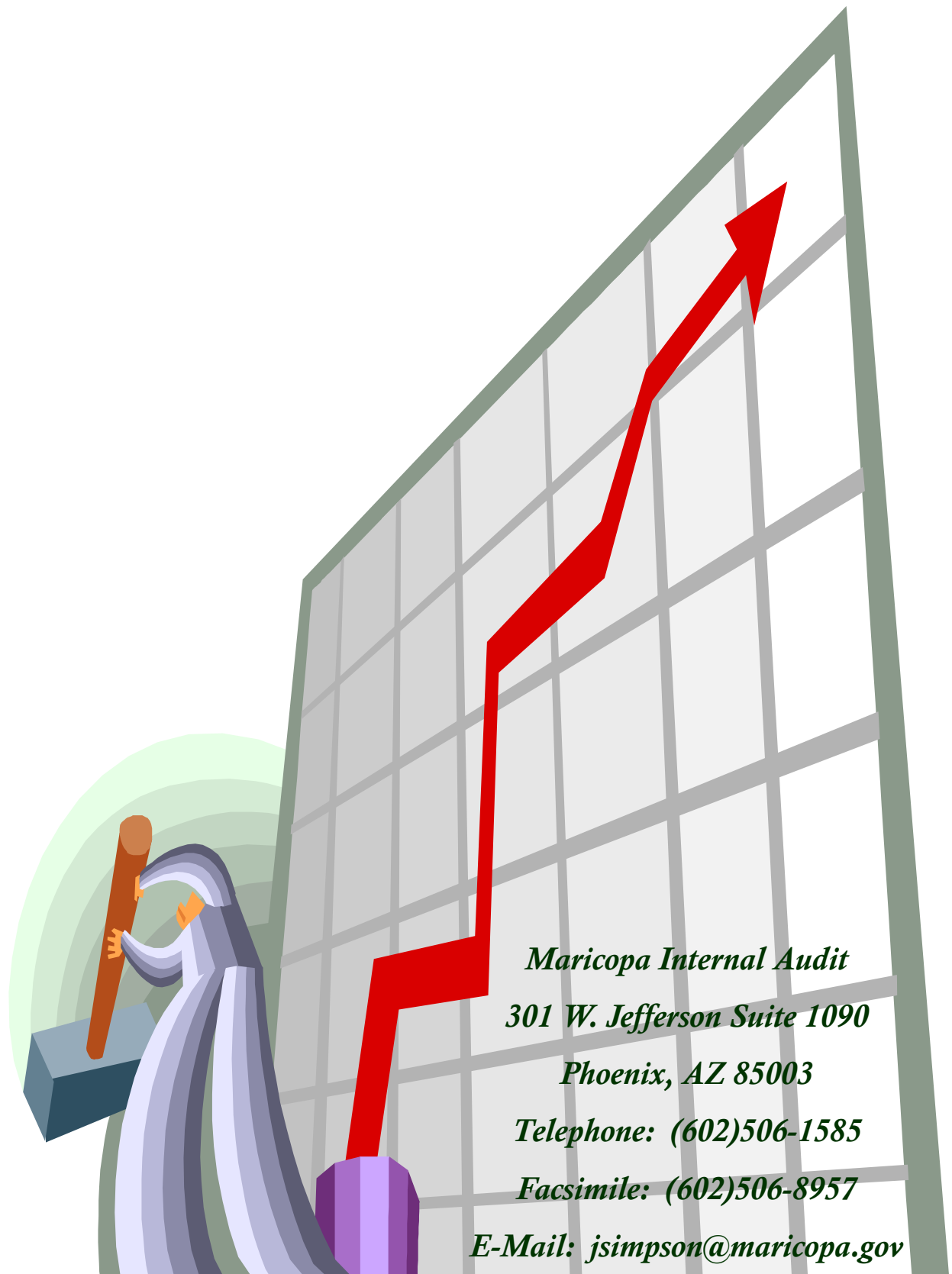
Other sources include the Governmental Accounting Standards Board (GASB), the International City/County Managers Association (ICMA), ASU Center for Business Research, Arizona Department of Economic Security Research Administration, Arizona Department of Revenue Econometrics Unit, Maricopa County's Strategic Plans (budgetary documents), and Auditor General Reports.

The focus of the analysis was on the General Fund, but does include other funds when the General Fund is affected by the other fund(s), or when an overall County trend is examined. When pertinent, each section and graph presented define the fund(s) included in the analysis.

Trend analysis is used in this report. Trend analysis involves examining financial indicators' historical data over several years. A trend is defined as the direction the data is moving over a three-to-five year period.

Fiscal years are identified as "FY01" (fiscal year ending June 30, 2001). Numbers are referred to as "actual," otherwise as "adjusted for inflation", "constant", or "real" (e.g., "2001 dollars"). An "actual" number is the amount originally published in the CAFR. An "adjusted for inflation" or "constant" number has been adjusted to the purchasing power of a 2001 dollar. The adjustment for inflation was made according to the "U.S. Consumer Price Index—All Items."





Maricopa Internal Audit
301 W. Jefferson Suite 1090

Phoenix, AZ 85003

Telephone: (602)506-1585

Facsimile: (602)506-8957

E-Mail: jsimpson@maricopa.gov